



Schedule UB Instructions

What is new?

- **Short-year filers only:** The subtraction for income received by an attorney-in-fact from an interinsurer or reciprocal insurer who has made an IRC, Section 835 election, expired on July 20, 2004. This subtraction is not allowed for tax years beginning on or after that date, as provided by Public Act 91-205.
- The IL-477, Replacement Tax Investment Credit, scheduled to expire on December 31, 2003, has been extended until December 31, 2008. You may continue to claim a credit for qualified property placed in service after December 31, 2003.
- Effective for tax years **ending on or after December 31, 2003**, and **before December 31, 2004**, the Research and Development Credit was not an allowable credit. For tax years **ending on or after December 31, 2004**, the Research and Development Credit has been restored.
- Effective for tax years **ending on or after December 31, 2003**, the Training Expense Credit is no longer an allowable credit.
- Effective for tax years **beginning on or after January 1, 2004**, those businesses in the film industry may qualify for a Film Production Services Tax Credit. See Schedule 1299-D Instructions for more information.
- Effective for tax years **beginning on or after January 1, 2004** businesses in the interstate trucking industry may qualify for a Transportation Employee Tax Credit. See Schedule 1299-D Instructions for more information.

General Information

What is the purpose of this schedule?

The purpose of Illinois Schedule UB is to enable a unitary business group to determine the amount of its unitary business income that is attributable to Illinois. A unitary business group's business income consists of income from transactions and activity in the regular course of the group's trade or business and includes all income that may be apportioned by formula among the states in which the group is doing business without violating the Constitution of the United States. All income is business income unless it is clearly attributable to one state and is earned or received through activities totally unrelated to any business the group is conducting in more than one state. The amount of unitary business income, however, must be computed starting with combined Illinois base income or its equivalent.

What is a unitary business group?

The term "unitary business group" means a group of persons related through common ownership whose business activities are integrated with, dependent upon, and contribute to each other. In the case of a corporation, common ownership is defined as the direct or indirect ownership or control of more than 50 percent of the outstanding voting stock. The statutory definition further provides that a unitary business group cannot include any person whose business activity outside of the United States is 80 percent or more of its total business activity (the "80/20" rule).

A 80/20 rule — To determine what percentage of your business activity is conducted outside the United States, you must use the same apportionment formula you use to determine how much business income is allocable to Illinois. However, if you use the single sales factor formula to apportion your business income, you must use only your payroll and property factors (computed in the same manner as in effect for tax years ending prior to December 31, 2000) and disregard the sales factor. See Section E of Specific Instructions. For purposes of the 80/20 rule, gross figures without eliminations will be used to determine the relevant apportionment factors of property, payroll, etc.

B Vertical and horizontal integration — Unitary business activity can ordinarily be illustrated where the activities of the members are

- steps in a vertically-structured enterprise or process such as the steps involved in the production of natural resources, which may include exploration, mining, refining, and marketing (vertical); or
- in the same general line such as manufacturing, wholesaling, retailing, insurance, transportation, and finance (horizontal);

and in either instance, the members are functionally integrated through the exercise of strong centralized management. For example, authority over such matters as purchasing, financing, tax compliance, product line, personnel, marketing, and capital investment is not left to each member.

C Apportionment method — Persons employing different single-factor formulas cannot be included in the same unitary business group; but two or more insurance companies may constitute a unitary business group, as may two or more financial organizations or transportation companies. See Form IL-1120 Instructions to compute the apportionment formula.

D Holding companies — A holding company should generally be treated as unitary with one or more subsidiaries if

- it is unitary in operations with one or more of the subsidiaries (*i.e.*, operating-holding company); or

- it holds, directly or indirectly, the capital stock of two or more subsidiaries which are conducting unitary operations; or
- filing of a separate return would distort the business income attributable to Illinois of the controlled group.

E Foreign corporations — A foreign corporation that is a member of a unitary business group shall only include in the combined income of the group the amount of federal taxable income described in Internal Revenue Code (IRC), Sections 881 through 885, rather than its worldwide federal taxable income equivalent. The foreign corporation's U.S. domestic "everywhere" factor should be used in the "everywhere" denominator, rather than its worldwide "everywhere" factor. A foreign sales corporation (FSC) that is a member of a unitary business group shall only include in the combined income of the group the amount of federal taxable income described in IRC, Sections 921 through 927.

F Unitary filers that derive business income solely from Illinois — Unitary business groups composed exclusively of members that derive business income solely from Illinois are required to file as a unitary group. Unitary returns filed by such a group that report a business loss must also include a completed Illinois Schedule UB so the combined loss can be prorated in accordance with regulations for purposes of carryback to separate return years. The factor formula information from Part IV of Illinois Schedule UB is necessary in order to divide the Illinois loss among the unitary group members.

G Partnerships — Partnerships are not included in Schedule UB. If you have a partnership that is a member of the unitary business group, see the instructions for the Schedule K-1-P(1), Partnerships and S Corporations Instructions.

Who is the designated agent and controlling corporation?

The designated agent is a member of the unitary business group that **must** be an Illinois taxpayer and authorized to file the combined return as the agent for the other members. The controlling corporation is the corporation that directly or indirectly owns a controlling interest in all the members of the unitary business group. If the controlling corporation is a member of the group and an Illinois taxpayer, it **must** be the designated agent. If the controlling corporation cannot be the designated agent, the group must select an Illinois taxpayer member to be the designated agent. The designated agent must remain the same every year, unless the designated agent ceases to be a member of the group or the controlling corporation becomes the designated agent. Designation of the agent is made in Part I of Illinois Schedule UB.

What are the filing requirements?

A — Illinois combined unitary returns

Corporations (other than S corporations) that are members of the same unitary business group **must** file as one taxpayer (including all eligible members) for purposes of any original return, extension, claim for refund, collection, payment, amended return, and determination of the combined Illinois tax liability. The group is required to file a combined unitary return (one Form IL-1120).

S corporation members of a unitary business group do not file as part of the combined return, but file a separate unitary return (Form IL-1120-ST, Small Business Corporation Replacement Tax Return) apportioning their unitary business income.

For more information regarding combined return filers, see Illinois Income Tax Regulations, Sections 100.5200 through 100.5280.

B — Illinois separate unitary returns

Illinois taxpayers that are S corporations and other non-corporate members of a unitary business group are still required to file Illinois separate unitary returns, as well as separate tentative tax payments, separate estimated tax payments, separate claims for refunds, and separate amended returns. However, the unitary business group (including S corporation members) must complete only one Illinois Schedule UB and include a copy with each return filed.

Part IA of each separately filed Form IL-1120-ST must be completed showing only the S corporation's separate-company items. The amounts on each member's Form IL-1120-ST, Part I, Lines 1, 2, and 5, not including Lines 2d and 5c, shall be the combined totals shown in Schedule UB, Part III, Column E.

Note The modifications for Form IL-1120-ST Lines 2d and 5c are not included as modifications on the Schedule UB. The amount on Form IL-1120-ST, Part I, Lines 2d or 5c must be computed in the Line 5c Worksheet found in the Form IL-1120-ST Instructions. Carry the combined total amounts from Schedule UB, Part III, Column E for each line item of the Line 5c Worksheet. Multiply the total on Line 5 of the worksheet by the percentage of the S corporation's stock owned by shareholders subject to the replacement tax.

Use the Line 2d and 5c amounts to compute the S corporation's base income on Form IL-1120-ST, Part I, Line 7, and Part III, Line 1. Complete Form IL-1120-ST, Part III by subtracting on Line 2a,

- the combined nonbusiness income of the entire unitary business group, minus the portion allocable to shareholders subject to replacement tax, and
- the amount received by the entire unitary business group from nonunitary partnerships, trusts, and estates, minus the portion allocable to shareholders subject to replacement tax.

On Form IL-1120-ST, Part III, Line 5a, include the everywhere sales amount from Schedule UB, Part IV, Column E, Line 2. On Line 5b of Part III of Form IL-1120-ST, include only the S corporation's Illinois sales. On Form IL-1120-ST, Part III, Lines 7 and 8, include only the nonbusiness income of the S corporation and the business income or loss apportionable to Illinois received by the S corporation, minus the portion of those amounts allocable to shareholders subject to replacement tax.

What if there are different accounting periods?

If the unitary business group members' accounting periods differ, the designated agent's accounting period must be used to determine the unitary group's business income.

Corporate members (other than S corporations) of the unitary business group must file combined, even if their accounting periods differ. In determining the proper income to be included in the appropriate accounting period, a member may compute its proforma taxable income from its books and records for the common taxable year. As an alternative, a member may determine its income based on the number of months within the common accounting period. For example, if one member uses a calendar year and the common accounting period ends October 31, 2003, the member should include two-twelfths of its income from the year ended December 31, 2002, and ten-twelfths of its income from the year ended December 31, 2003. This method may be used only if the group's return may be timely filed after the member's taxable year ends. As another alternative, the group may include in its taxable income all of the taxable income of a member whose tax year ends within the group's tax year. Once one of these methods is used for a member, that member must continue to use that method unless the requirements of Illinois Income Tax Regulations, Section 100.5265(c) are met.

What if there are part-year members?

All part-year members are required to file as part of the unitary business group for the portion of the year the taxpayer is a member. For the remainder of the year, the member is required to file a separate non-unitary return. However, if the member belongs to another unitary business group during the remainder of the year, that member is required to file as part of that group, following the same instructions as above. For further information, see the Illinois Income Tax Regulations, Section 100.5270(f).

What if a domestic international sales corporation (DISC) or a foreign sales corporation (FSC) is a member of this unitary group?

A corporation that has elected to be, or is treated as a DISC for the taxable year under IRC, Section 992, is not subject to the taxes imposed by IRC, Subtitle A

(except for the tax imposed on transfers to avoid income tax under Section 1491). Similarly, a DISC is not subject to the taxes imposed by the IITA and is not required to file an Illinois income tax return.

Consequently, even though a DISC may be a member of a unitary business group, only the actual and deemed distributions taxable to the DISC's shareholders for federal income tax purposes should be accounted for in determining Illinois income tax liability. Neither the portion of DISC income on which federal income tax is deferred for the tax year, nor the sales factor of the DISC should be accounted for in the computation of Illinois income tax liability of the unitary business group under the combined method of apportionment.

Corporate shareholders of a DISC should include in business income their actual and deemed distributions from the DISC, to the extent the distributions are federally taxed. To the extent that the DISC's activities are an integral part of the unitary business, the actual and deemed distributions should be included in the combined unitary business income. If a DISC meets the criteria for inclusion in the unitary business group, it must be listed under Part I, Section B, of Illinois Schedule UB. However, computations for the DISC should not be required for Parts II, III, and IV of Illinois Schedule UB. In conformity with the applicable provisions of the IRC, the other members of the unitary business group which are shareholders of the DISC should include such amounts in their respective federal taxable incomes (or equivalents) as are required to be included for federal income tax purposes.

Distributions from DISCs are treated in accordance with the federal rules pertaining to dividends, dividend exclusions, and dividend-received deductions for Illinois purposes.

An FSC is taxed by Illinois to the extent its nonexempt foreign trade income, investment income, and carrying charges (taxable for federal purposes) are allocable to Illinois.

Can a reasonable facsimile be used?

A reasonable facsimile or computer-generated version of the Illinois Schedule UB, that contains the same information and is arranged in the exact same format as our form, may be used **only** if previously approved by the department. For approval, call our Office of Publications Management at 217 782-4641.

Specific Instructions

Use this Schedule UB to file unitary for tax years ending **on or after December 31, 2003**. Use Illinois Schedule UB with an earlier revision date to file unitary for tax years **ending prior to December 31, 2003**.

If you need additional forms or schedules,

- visit our web site at www.ILtax.com;
- call our 24-hour Forms Order Line at **1 800 356-6302**; or
- write to us at P.O. Box 19010, Springfield, Illinois 62794-9010.

Illinois Schedule UB must be attached to Form IL-1120, Form IL-1120-X, or, if all members are S corporations, Form IL-1120-ST.

Note If the unitary business group consists of more than three members and additional space is needed, complete and attach additional copies of Illinois Schedule UB.

Part I — Provide your membership information

Write the name and FEIN of the designated agent. The designated agent must file the Illinois Schedule UB in this tax year and each succeeding year.

Write the name and FEIN of the designated agent that filed Illinois Schedule UB last year, if different from this year.

Write the name and FEIN of the controlling corporation if it is not the designated agent.

You must indicate whether the controlling corporation is a member of this unitary business group.

Note If your unitary business group consists solely of S corporations (Form IL-1120-ST), write the name and FEIN of the member, who on a recurring basis, has the greatest Illinois tax liability. This member must file Illinois Schedule UB in this tax year and each succeeding year. All returns filed by other members of the group must provide the FEIN of the member that filed the Illinois Schedule UB. Space is provided below the name and address area on each return.

Section A — Check the filing structure and apportionment method you are using

Filing structure — You must indicate whether the unitary business group's activities are vertical structures or horizontal structures. See "Vertical and horizontal integration" under "What is a unitary business group?"

Apportionment method — You must indicate the type of apportionment method used by this unitary business group. See "Apportionment method" under "What is a unitary business group?"

Section B — List all members

Columns A, B, and C — List all members of the unitary business group, including name, FEIN, and tax year ending. If your unitary group consists of both Form IL-1120 and Form IL-1120-ST filers, attach a list identifying Form IL-1120-ST members.

Column D — Check the line in this column if the member listed in Column A is required to file an Illinois income tax return for this tax year. For an explanation of who must file an Illinois income tax return, see the instructions for Form IL-1120 or Form IL-1120-ST, as appropriate.

For each member that is not required to file an Illinois income tax return, attach a separate statement listing

- the member's state of incorporation;
- the state of commercial domicile;
- total number of its employees during the year;

- the number of employees who were in Illinois on business during the year; and
- the cost price of real and tangible personal property, (including rental property at eight times the annual rent), everywhere and in Illinois.

Note You may **not** substitute the Affiliations Schedule (U.S. Form 851) from a federal consolidated return for Section B.

Columns E and F — Check the line in these columns if they apply to the member listed in Column A for this tax year.

Column G — If any member of your unitary group is a foreign insurer, whose state or country of domicile imposes a retaliatory tax on insurers domiciled in Illinois, your unitary group may be entitled to a tax reduction. Check the line in this column if it applies to the member listed in Column A for this tax year, and attach a completed Illinois Schedule UB/INS, Tax for a Unitary Business Group with Foreign Insurer Members.

Section C — List any mergers with members listed in Section B

Column A — Write the name and FEIN of the person who has merged with any member of this unitary group in this tax year.

Column B — Write the name and FEIN of the member listed in Section B with whom this person merged.

Section D — List all members who left the group during this tax year

Write the name and FEIN of any member who was a member of this unitary group last year and left the group during this tax year.

Section E — Attach a list of all persons excluded due to the 80/20 rule and all other persons not listed in Sections B through D.

First, attach a list of all persons excluded due to the 80/20 rule. Write the name, FEIN, and indicate whether this person is required to file an Illinois return.

A unitary business group may not include any person whose business activity outside of the United States is 80 percent or more of its total business activity (the 80/20 rule). To determine whether a potential member is excluded by the 80/20 rule, you must use the factors you are normally required to use to apportion business income (under IITA, Section 304), with three exceptions. First, the numerator of each factor will include business activity in the U.S. (the 50 states and D.C.) rather than in Illinois alone. Second, if you use the single sales factor formula in IITA 304(a) to apportion your business income, you do not use the sales factor in applying the 80/20 rule. Instead, you must use only your payroll and property factors, computed in the same manner as these factors were computed for tax years ending prior to December 31, 2000. For example, if 85 percent of your property and 95 percent of your payroll is outside the United States, then 90 percent of your business activity is

conducted outside the United States (85 percent plus 95 percent, divided by 2) and you cannot be included in a unitary business group even if 100 percent of your sales are made in the United States. Third, to determine the relevant apportionment factors, you should use gross figures without eliminations for transactions with other members of your group. Foreign corporations filing U.S. Form 1120F, will meet the 80/20 test because only their domestic property and payroll figures will be used in the "everywhere" denominators, rather than worldwide "everywhere" figures.

Line 1 — Write the total number of persons excluded.

Second, attach a list of all other persons and their FEINs, not listed in Sections B through D who control or are controlled by, directly or indirectly (through the ownership of more than 50 percent of their voting stock), a member of the unitary business group. Do not include any person that conducts 80 percent or more of its business activity outside the United States.

Line 2 — Write the total number of other persons.

Part II — Figure your federal taxable income or equivalent

Columns A, B, and C — Write the FEIN and complete Lines 1 through 30 for each member of the unitary business group listed in Part I, Section B. Generally, these line amounts correspond to the line amounts from U.S. Form 1120. Use additional schedules, if necessary.

Note Do not write any amount on Line 29a in Part II. Illinois net loss deductions are provided for on Form IL-1120, Part IV, Line 2 (for losses arising from tax years ending on or after December 31, 1986).

Computing federal taxable income (or net operating loss) — All members of the unitary business group must include their federal taxable income or loss in Part II.

Federal taxable income or loss in Part II means "separate taxable income" that would be computed by each member for purposes of a federal consolidated return and its supporting statements in accordance with IRS Regulations, Section 1.1502-12. For Illinois income tax purposes, the federal taxable income or loss of each member of the unitary business group is written on Line 30.

For S corporations, federal taxable income on Line 30 should equal the amount on Form IL-1120-ST, Part IA, Line 5.

Column D — Eliminations between group members and federal consolidated adjustments — Write any federal consolidating adjustments made in combining the amounts in Columns A, B, and C in Column D.

Column E - Combined totals — Write the combined total of Columns A, B, C, and D for each line. Combined taxable income (or combined NOL) should be determined by treating all members of the unitary business group as if they constitute a federal consolidated group and by applying the federal

regulations for determining consolidated taxable income (see IRS Regulation, Section 1.1502-11) and consolidated NOL (see IRS Regulation, Section 1.1502-21(e)), but without applying the federal “separate return limitation year” or life-nonlife insurance company limitations.

Federal elections — In computing federal taxable income, each member is required to follow all elections it made (or which were made on its behalf) for federal income tax purposes.

Part III — Figure your combined business income

Generally, these items correspond to lines on Form IL-1120, Parts I and III. For specific line information, see Form IL-1120 instructions. Schedules used to compute any amounts shown **must** be attached to Form IL-1120.

Line 1 — Write the federal taxable income or loss for Illinois purposes from Part II, Column E, Line 30.

Columns A, B, and C — Write the FEIN and dollar amounts for each member of the unitary business group listed in Part I, Section B.

Special instructions for Lines 8 and 9

Line 8 — Write the amount of all nonbusiness income or loss from Illinois Schedule NB, Column A. Attach Illinois Schedule NB to Form IL-1120.

Note — For tax years beginning on or after January 1, 2003, the designated agent may make an election to treat all of the unitary group’s income other than compensation as business income. For more information on making this election see Form IL-1120, Specific Instructions for Part III, Line 2a. If the election is made, write zero on Line 8.

Line 9 — Write the amount of all non-unitary business income or loss received from any partnership, trust, or estate of which the corporation is a partner or beneficiary.

Note — If the activities of the corporation and the activities of a partnership of which the corporation is a partner constitute a unitary business relationship, any shares of partnership income or loss and factors of the corporate partner must be included in the business income and factors of the corporation. Any such income cannot be subtracted on Line 9. For further information, see Illinois Income Tax Regulations, Section 100.3380(d).

Column D — See specific instructions for Part II, Column D — Eliminations between group members and federal consolidating adjustments.

Column E — Write the combined total of Columns A, B, C, and D for each line.

Part IV — Figure your apportionment factor

Column A, B, and C — Write the FEIN and dollar amounts for each member listed in Part I, Section B. Amounts in these columns cannot be negative. The lines pertaining to each member’s separate

sales must be completed. This applies to all members, even if a combined unitary business group loss is shown on Column E, Line 1, or if they are 100 percent apportionable to Illinois.

Column D — Write the amounts of any “intercompany” transactions that were eliminated from the apportionment factor. In general, all transactions between members of a unitary business group must be eliminated to avoid distortion. However, transactions between a partnership and other members of a unitary business group are not eliminated in determining the apportionment factors of the partnership that are included in the factors of its unitary partner under Illinois Income Tax Regulations, Section 100.3380(d).

Line 1 — Write the combined unitary business income or loss from Part III, Column E, Line 11.

Line 2 — For tax years ending on or after December 31, 2000, the apportionment factor is figured using only the sales factor.

To arrive at the combined unitary business group income to be apportioned to Illinois, the “net sales everywhere” amount is taken from Column E, Line 2, and written on Part III of Form IL-1120 or Form IL-1120-ST.

Line 3 — For members who are not required to file Illinois returns or members who file separate returns (e.g., S corporations), write zero on this line.

Combined “net sales within Illinois” amount on Column E, Line 3, should be written on the combined Form IL-1120.

Specific instructions for completing Form IL-1120

The amounts to be transferred to Form IL-1120 should be taken from Illinois Schedule UB, Parts II, III, and IV. For specific line information, see Form IL-1120 instructions.

Part I of Form IL-1120

Write the combined amounts from Part III, Column E, Lines 1 through 7 on Form IL-1120, Part I, Lines 1 through 7.

Part II of Form IL-1120

Note — You **must** make payments on a combined basis under the designated agent’s FEIN.

If you have any foreign insurer members and you completed Illinois Schedule UB/INS, write the reduced tax amounts from that schedule.

Part III of Form IL-1120

Lines 1 through 4 — Write combined amounts from Part III, Column E, Lines 7 through 11.

Line 5a — Write the combined “net sales everywhere” amount from Part IV, Column E, Line 2.

Line 5b — Write the combined “net sales within Illinois” amount from Part IV, Column E, Line 3.

Lines 7 and 8 — Write the combined total of nonbusiness, and non-unitary partnership, trust, or estate income or loss allocable to Illinois for all members of the group.

Part IV and Part V of Form IL-1120

Part IV, Line 2 — Illinois Schedule UB/NLD must be completed and attached to Form IL-1120 to claim an Illinois net loss deduction. See instructions for Illinois Schedule UB/NLD, Step 3, Column G, for limitations in the amount of loss that may be applied to each member of the unitary group.

Part IV, Line 6 and Part V, Line 4 — The designated agent should complete any credit allowed based on the combined activities of the electing eligible members and apply it against the combined liability of the electing eligible members. For more information, see Illinois Income Tax Regulations, Section 100.5270.

Part VI of Form IL-1120

You must complete Part VI in its entirety.

If you need further information,

- visit our web site at www.ILtax.com and view the Illinois Income Tax Regulations referenced in these instructions, or
- you may request these regulations by writing to:
Illinois Department of Revenue
Legal Services Office
Senior Counsel - Income Tax, 5-500
101 West Jefferson Street
Springfield, Illinois 62702